

## Gati Limited

December 07, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities #	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>0.00</b> <b>(₹ Zero Only)</b>		
Fixed Deposit	3.02 (Reduced from 6.24)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
<b>Total Medium Term Instruments</b>	<b>3.02</b> <b>(₹ Three Crore and Two Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

# Long term Bank facilities pertain to term loan and working capital term loan. These facilities are withdrawn with immediate effect as the same are fully repaid and there are no outstanding limits as on date.

### Detailed rationale and key rating drivers

The rating assigned to fixed deposit program of Gati Limited (Gati) continue to derive strength from the operational and financial synergy derived from Allcargo Logistics Limited. The rating also factor in improvement in revenue in FY22 (Audited) and H1FY23 (Unaudited) at consolidated level on account of established position of the company in the express cargo industry with pan-India presence, enabling it to cater to a diversified customer base from various industries. Gati continues to have a comfortable capital structure owing to significant reduction in debt levels. Care Ratings also notes that the company under the management of Allcargo Logistics has adopted an Asset Light Strategy and has divested a major part of its non-core business including land & buildings, commercial vehicles owned by the company and used the proceeds from such sale to pare the debt. The rating, however, is constrained by low PBILDT margins and net loss reported in FY22 (refers to the period April 01 to March 31). Furthermore, the rating continues to remain constrained by concentrated revenue profile deriving large share of revenues from Express Distribution (Less than Truck Load segment), stiff competition from unorganized players and new start-ups backed by deep-pocketed international PE investors.

Care Ratings has withdrawn the ratings assigned to the bank facilities of Gati Ltd with immediate effect based on no due certificate received from the lender along with the withdrawal request provided the company.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in TOI and PBILDT margins beyond 10% on sustainable basis.
- Improvement in Total debt/GCA to 2x or less.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in financial profile of the company with over all gearing going beyond 1x.
- Continuing of losses.

### Detailed description of the key rating drivers

#### Key rating strengths

##### **Operational and financial synergy derived from Allcargo Logistics Limited**

Gati Limited was established in 1989. In April 2020, Allcargo Logistics Limited (ALL) (CARE AA; Stable/ CARE A1+) acquired 46.86% stake in Gati Limited and the same has subsequently increased to 47.30% as on March 31, 2022. As the entire management control is with ALL, it has become the promoter of Gati Limited and its group/subsidiary companies. Post completion of acquisition, Mr. Shashi Kiran Shetty, who is also Chairman of ALL, has been appointed as the Managing Director of Gati. CARE Ratings expects that the operational and financial synergistic benefit from ALL will accrue to Gati by virtue of being its subsidiary.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## **Management initiatives taken**

### **Sales Acceleration Planned**

In February 2022, company has brought, structural changes in the organization where in re-alignment of sales team structure was done with a targeted approach towards key account management, MSME and retail. This is expected to result in increased market share and improve standard of customer service. Further, the management has adopted cluster based approach, where in centralized rate card for decision on discounts and dynamic pricing was put in place.

### **Operation cost optimisation**

To optimise operational cost, company has introduced central war room for managing peak periods. To reduce transshipment cost network decision support and redesign of various routes with focus on connectivity has taken place. Similarly for enabling better service quality- hub modernisation, higher automation, route optimisation has taken place. Company has improved its infrastructure to accelerate capacity creation to manage higher loads in most efficient manner. Further, one new Super Hub was inaugurated in New Delhi in December 2021 which is fully operational. Two new hubs were inaugurated at Nagpur and Guwahati in October 2022 which are fully operational and are stabilizing. In addition, two new Super Hubs at Mumbai and Bangalore are expected to be operational by Q4FY23.

### **Talent**

Company is setting industry wide best practice with special focus on talent retention and development through structured employee engagement and calendarized leadership intervention program.

### **Established position in express cargo industry with pan-India presence**

Gati through its subsidiary Gati Kintetsu Express Private Ltd (GKEPL) operates through twenty express distribution hubs located at Ambala, Delhi, Jaipur, Lucknow, Noida, Delhi NCR, Ahmedabad, Bombay (Inside), Bombay (Outside), Indore, Pune, Bangalore, Hyderabad, Coimbatore, Chennai, Bhubaneswar, Kolkata, Guwahati and Ranchi covering the corners of the country. Further, the company has a network of 85 goods delivery warehouses having more than 1 Mn Sft, 538 own and franchise customer convenience centres reaching ~19000 pin codes across the country covering 650+ districts. It has employed about 3400 professionals across India for operations. Currently, the company operates 5,000-plus vehicles and an assured space across all major airline sectors which help delivery of goods to every corner of the country.

### **Diversified segments with reputed customer base**

The company caters to a diversified clientele which is spread across varied industrial segments such as general manufacturing products, computer, peripherals & electronic components, auto components, pharmaceuticals, apparel and other. Besides segmental diversification, the company also benefits from client portfolio comprising reputed and major players in every segment. The company through its subsidiary GKEPL has long-term business relationship with some of its top clients which include TVS Motor Company Limited, 3M India Limited, Samsung India Electronics Private Limited, Maruti Suzuki India Ltd, Honda Motors, Schaeffler India Ltd. etc. The company has a diversified customer base of more than 650 clientele with top ten customers contributing 16.81% during FY22 (as against 11.83% during FY21).

### **Large share of revenues from Express Distribution (Less than Truck Load (LTL) segment)**

Gati's subsidiary GKEPL has an integrated hub-and-spoke operating model that entails consolidation of goods from multiple locations through feeder vehicles to transshipment hubs and then further transported to respective destinations. Full Truck Load generates lesser net revenue than Express Distribution due to transportation of goods from a single customer to single destination for certain customers. However, in Express Distribution consolidation of goods from multiple customers are done through transshipment centres and further it is dispatched to multiple location resulting in better margins due to optimization of capacities.

### **Hiving off of non-core businesses; focus on express logistics**

Company over a period of two years have exited many non-core and non-performing businesses in order to increase its focus on its express logistic business. It has sold off overseas loss-making entity Gati Asia Pacific Pte Limited. In May 2021 the company also exited its cold chain solution business—Gati Kausar India Limited. Gati has scaled down the business of Gati Import Export Trading Limited and is in the process of exiting its fuel station business. The steps taken by the company to exit from non-core operations augurs well for the overall growth of the company.

### **Comfortable financial risk profile**

The financial risk profile of the company remains comfortable with over all gearing at 0.51x as on March 31, 2022 (PY:0.58x). The company has prepaid its term loans and as on August 31, 2022 and there are no term loans outstanding. The other debt coverage indicators like Interest coverage and Total debt/GCA improved marginally to 1.37x (PY:0.55x) and 11.55x (PY:-1.56x) respectively for FY22.

### **Key rating weaknesses**

#### **Improvement in revenue and operating margins in FY22 however loss continue at PBT level albeit overall improvement reported in H1FY23**

The TOI of the company have improved by ~13% to Rs 1489.96 crore in FY22 vis-à-vis Rs. 1314.24 crore in FY21. Company has also reported improved PBILDT. PBILDT improved by about 52% to Rs 37.54 crore (PY: Rs 24.77 crore) and in terms of

margin the same stood at 2.52% (PY: 1.88%) improved by 64 bps. Despite improved PBILDT margins company reported loss of Rs 12.55 crore at PBT level (excluding extraordinary income and expenses) for FY22. The primary contributing factor for the same has been increase in fuel cost which constituted ~57% of the total cost (PY: ~45% during FY21). However, on account of exceptional gain of Rs 12.05 crore final reported loss for FY22 stood at Rs -4.43 crore.

For H1FY23, company reported TOI of Rs 879.32 crore improved from Rs 692.67 crore in H1FY22 viz. improvement of ~27%. Further, PBILDT improved from Rs 19.16 crore in H1FY22 to Rs 52.31 crore in H1FY23 registering a growth of ~173%. In terms of margin the same stood at 5.95% improved from 2.77%. In terms of tonnage (volume) the same has improved by about 27% in H1FY23 to 5,62,000 MT in H1FY23 from 4,40,094 MT in H1FY22.

#### **Concentrated Revenue profile**

The revenue profile of the company is broadly divided into three categories i.e. surface express constituting Less than truck load (LTL) and MVATS-Full Truck Load, Air express and Supply Chain Management (SCM). The major operational division of the company continues to be surface express division wherein Gati derives most of the revenue contributing 92% of the total operating income.

#### **Liquidity: Adequate**

The liquidity profile of the company is adequate. During H1FY23 company has sold and realised Rs 67 crore from the sale of its non-core assets which has improved the liquidity position of the company. Further, company is expected to receive Rs 52.50 crore from ALL on account of conversion of warrants in Q3FY23 and about Rs 50 crore from sale of asset in H2FY23. All the aforementioned will further improve the liquidity of the company. With the above liquidity in hand, company is expected to bring down its working capital limit which are currently at Rs 230 crore. The working capital utilization for the last twelve months ended October 2022 stood at ~76%. Considering the presence of unutilized credit lines and company's approach steps to become asset light by divestment of its assets and with no term loan outstanding, the company is expected to have comfortable liquidity position. Further, Gati is a subsidiary of Allcargo Logistics Ltd (ALL) and the management of both the entities are same. Considering the financial strength of ALL along with gradual improvement in financial performance of Gati, the credit risk profile of the Gati is also expected to remain strong.

#### **Analytical approach**

Consolidated factoring in linkages with promoter Allcargo Logistics Limited (ALL) along with the management and financial support extended by ALL. The analytical approach also factors in operational linkages with subsidiaries while assessing the rating. The subsidiaries of Gati which have been consolidated are mentioned in Annexure-6

#### **Applicable criteria**

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

#### **About the company**

Gati Limited was established in 1989 and over the period of time emerged as one of India's largest road transport companies. Gati has established connectivity across air, road, ocean and rail providing various logistics services to the customers in the industry with presence in 650+ districts in India covering ~19,000 pin codes. Gati at group level offers wide range of services viz. Express Distribution, Supply chain management solution, e-commerce logistics, managed value-added transportation services (MVATS), freight forwarding and cold chain logistics. Gati, at group level, has a network of over 600 offices including 24 surface transshipment hubs, operates a fleet of 5,000 vehicles on road across India.

In 2020, Allcargo Logistics Limited (CARE AA; Stable; CARE A1+) has acquired stake of 46.86% (subsequently increased to 47.30% as on March 31, 2022) and became the promoter of the Gati Limited. Allcargo Logistics Limited incorporated in 1993, as a freight-forwarding agent, ALL became a multimodal transport operator in 1998 by offering logistics services. The company operates in multiple business segments - Multimodal Transport Operations (MTO), Container Freight Stations (CFS)/Inland

Container Depot (ICD), Project & Engineering solutions, Contract Logistics and Logistics Parks. ALL is amongst the leading players in the global LCL consolidation market with a strong network across 160 plus countries and 300 plus offices covering over 4,000 port pairs across the world.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1314.24	1489.96	879.32
PBILDT	24.77	37.54	52.31
PAT	-245.93	-4.43	14.24
Overall gearing (times)	0.58	0.51	NA
Interest coverage (times)	0.55	1.37	3.49

A: Audited,UA: Un-audited,NA: Not Available

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	30-09-2023	3.02	CARE BBB; Stable
Fund-based - LT-Working capital Term Loan		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	-	0.00	Withdrawn

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	-	-	-	1)CARE BBB; Stable (07-Oct-21)	1)CARE BB+; Stable (23-Dec-20)	1)CARE BB+ (CWD) (16-Dec-19) 2)CARE BB+; Stable (21-Nov-19) 3)CARE BBB; Negative (20-Aug-19)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE BB+; Stable	1)CARE BB+ (CWD)

							(23-Dec-20)	(16-Dec-19)
								2)CARE BB+; Stable (21-Nov-19) 3)CARE BBB; Negative (20-Aug-19)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE A4+ (23-Dec-20)	1)CARE A4+ (CWD) (16-Dec-19) 2)CARE A4+ (21-Nov-19) 3)CARE A3 (20-Aug-19)
4	Fixed Deposit	LT	3.02	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Oct-21)	1)CARE BB+; Stable (23-Dec-20)	1)CARE BB+ (CWD) (16-Dec-19) 2)CARE BB+; Stable (21-Nov-19) 3)CARE BBB; Negative (20-Aug-19)
5	Fund-based - LT-Bill Discounting/ Bills Purchasing	LT	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE BB+; Stable (23-Dec-20)	-
6	Fund-based - LT-Working capital Term Loan	LT	-	-	-	1)CARE BBB; Stable (07-Oct-21)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Term Loan-Long Term	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of subsidiaries**

Name of companies/ Entities	% of holding
Gati Kintetsu Express Private Limited	70
Gati Import Export Trading Ltd	100
Zen Cargo Movers Private Limited	100
Gati Logistics Parks Private Limited	100
Gati Projects Private Limited	100

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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#### About us:

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